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# AICPA *Washington Report*

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## OFFICE OF MANAGEMENT AND BUDGET

An additional segment of the draft Federal Acquisition Regulations, relating to standard procurement forms was recently issued for comment (see the 6/21/82 Fed. Reg., p. 26679). Comments on this segment of the FAR are requested by 7/30/82. For additional information contact William Maraist at 202/395-3300.

## SECURITIES AND EXCHANGE COMMISSION

Commissioner Philip A. Loomis Jr., who retired 6/25/82 after 11 years as a member of the Commission, was commended by the Senate for outstanding service to the nation. Senate Resolution 417 commending Commissioner Loomis stated in part that [he] "has served his Nation with great distinction for more than thirty years in the highest tradition of public service, and is recognized as one of the foremost authorities in the field of Securities law;" and that "as General Counsel of the SEC [he] demonstrated extraordinary legal competence, briefing and arguing many cases in Federal appellate courts, including successful argument of every case in which he appeared before the Supreme Court of the U.S." Included in the introduction of the resolution by Senator Jake Garn (R-UT) was a letter to the Senator from Chairman John S.R. Shad expressing enthusiastic support of the resolution and praising Commissioner Loomis, saying that his "Selfless dedication to public service is in the highest tradition of the civil servant and it sets a standard to which all could aspire".

The availability of Form S-18, a simplified registration form has been expanded to include non-corporate registrants and registrants engaged in oil and gas related operations (see the 6/10/82 Fed. Reg., pp. 25126-32). Additionally, the Commission amended several disclosure items to conform with the adoption of the integrated disclosure system, and modified the financial statement requirements to reflect recent revisions to the financial information requirements in Commission filings. The rules are effective 7/8/82. However, registrants are permitted to comply voluntarily with the revised form S-18 requirement 6/10/82. For additional information contact Suzanne Brannan at 202/272-2644.

A new disclosure framework for standardized options will be proposed for public comment. At its 6/24/82 open meeting the Commission decided to propose amendments that would streamline and simplify disclosure documents and ultimately save securities firms over \$1 million per year. The proposed amendments would create a new optional registration statement form, Form S-20, to be used to register options under the Securities Act, and an options disclosure document for investors containing information about options and options trading. The Commission also agreed to proposed two rules: one that would exempt the option disclosure document from the requirements of Section 5 of the '33 Act, which require the registration of all securities, and another that would permit the dissemination of instructional material about options and options trading without the information being deemed a prospectus for purposes of Section 5. Additionally, the Commission agreed to propose rules which would amend its oil and gas disclosures to conform with a recent Financial Accounting Standards Board proposal. The FASB proposal would require oil and gas producing companies to continue to disclose the method of accounting for costs such as exploration and the manner of disposing of those costs. The proposal would require a standardized measure of discounted future net cash flows related to proved reserves. If the FASB adopts its exposure draft the SEC will eliminate two current requirements: the separate presentation of future net revenues from proved reserves applicable to each of the three succeeding fiscal years, and the presentation of a supplemental statement on the basis of "Reserve Recognition Accounting", RRA.

Commissioner Bevis Longstreth was renominated by President Reagan to be a member of the Commission to fulfill the remainder of retiring Commissioner Philip A. Loomis' term which expires 6/5/84. Mr. Longstreth has been serving as Commissioner since 1981. He practiced law with the firm of Debevoise, Plimpton, Lyons and Gates from 1962-1981 and became a partner in 1970. He served as Secretary on the Special Committee on Science and Law of the Association of the Bar of the City of New York from 1962-1967. He has been a Lecturer at Columbia Law School since 1976. Mr Longstreth graduated from Princeton University and Harvard Law School.

#### TREASURY, DEPARTMENT OF

Proposed debt/equity regulations under section 385 of the Code, due to become effective 7/1/82 have been postponed and will not be effective any earlier than 1/1/83 according to an IRS press release (IR 82-80). The controversial proposal which relates to a determination of whether certain interests in corporations are treated as stock or indebtedness will become effective 90 days after final revisions to the regulations are published in the Federal Register, but not earlier than 1/1/83. The regulations have been the subject of various legislative initiatives, the latest of which was S2610, introduced by Senator John Chafee (R-R.I.). That measure would delay implementation of any proposed regulations under section 385 until 180 days after the proposal was submitted to Congress.

The procedure for electing the \$10m limitation on exempt small issues of industrial development bonds was the subject of a recent notice of proposed rulemaking from the IRS (see the 6/22/82 Fed. Reg. pp. 26854-56). The proposal would modify the election procedure to provide that issues of exempt small issues of IDB's must file the statement of election with the district director where the facility financed by the largest portion of the proceeds is located. The proposal would also require all principal users of facilities financed by these exempt small issues to file the annual supplemental statement of capital expenditures required by the Code with the district director of the internal revenue district in which the facility is located. Comments are requested by 8/23/82. For additional information contact John Tolleris at 202-566-3294.

A practice known as "coupon stripping" will be the subject of an IRS legislative amendment, according to a recent Treasury press release. Coupon stripping involves the separation of the unmatured interest coupons from the bond "corpus" or principal bond, followed by a sale of the corpus or principal. The corpus is sold for an amount that represents its present value at maturity. The sale of the coupons in a later year is then treated as producing substantial income; however, taxpayers use the early year loss to defer tax liability. The proposed legislation would provide a statutory rule effectively denying a loss on a transaction in which the corpus of a stripped bond is sold, and explicitly provide that purchasers of stripped bonds and interest coupons will, for tax purposes, be treated as if each instrument were a zero coupon obligation that is subject to a periodic inclusion rule. The requested change will be effective for sales and purchases of bond corpus and interest coupons after 6/9/82. For additional information contact Charles Powers at 202/566-2041.

#### SPECIAL: WAYS AND MEANS SUBCOMMITTEE APPROVES SUBCHAPTER S LEGISLATION

A measure designed to simplify tax rules for Subchapter S corporations, ease eligibility for Subchapter S status, and increase the number of shareholders from 25 to 35 (H.R. 6055) was approved on 6/23/82 by the House Ways and Means Subcommittee on Select Revenue Measures. Under the legislation, fringe benefits and pension plans would be taxed under partnership rules, and

losses in excess of a shareholder's basis in stock and debt would be allowed as a carryover. Amendments added by the subcommittee would provide that a corporation's Subchapter S election would not be terminated because the corporation has outstanding any straight-debt instrument held by an eligible stockholder; and repeal existing foreign-income restrictions, which require more than 80% of its gross receipts from foreign sources. Under a "grandfather" provision approved by the panel, existing Subchapter S corporations with foreign subsidiaries or subsidiaries that are domestic international sales corporations (DISCs) could remain Subchapter S corporations as long as their election does not terminate and the majority of their stock is not transferred. Further, the "passive income test" would be repealed for all new corporations and for existing corporations without accumulated earnings and profits. The definition of "passive income" was changed to exclude interest on deferred payment sales of inventory and income from lending or finance businesses. H.R. 6055 and its Senate companion S.2350 both have administration approval. H.R. 6055 will now go to the full Ways and Means Committee for consideration. No action has been scheduled.

SPECIAL: AICPA RELEASES 1982 RECOMMENDED TAX LAW CHANGES

The 1982 edition of Recommended Tax Law Changes, a biennial publication by the AICPA's Federal Tax Division, is now available to the public. Released last week to members of Congress, the publication identifies specific problems with the tax law and proposes corrective measures. The publication includes sections on: corporate distributions and adjustments; pensions; accounting periods and methods; partnerships; tax based on foreign income; capital gains and losses; small businesses; self-employment income and estate and gift taxes. Copies of the Recommended Tax Law Changes are available free of charge from the AICPA's Order Department at 212/575-6426.

For additional information, please contact Jim Kovakas, Gina Rosasco, Nick Nichols or Kathee Baker at 202/872-8190.

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